

**VIRGINIA COMMERCIAL
SPACE FLIGHT AUTHORITY**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Virginia Commercial Space Flight Authority for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance with laws and regulations that are required to be reported.

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AUDIT SUMMARY

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AUTHORITY OFFICIALS

October 31, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Commercial Space Flight Authority

We have audited the accounts and records of the **Virginia Commercial Space Flight Authority** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and on compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Virginia Commercial Space Flight Authority as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Commercial Space Flight Authority as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards

Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Commercial Space Flight Authority as of and for the year ended June 30, 2003, we considered internal control over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 5, 2003.

AUDITOR OF PUBLIC ACCOUNTS

GML:kva
kva:32

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2003

The management of the Virginia Commercial Space Flight Authority (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Virginia Commercial Space Flight Authority for the fiscal year ended June 30, 2003. We encourage readers to consider this information presented here in conjunction with the financial statements and accompanying notes.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. As a related organization of the Commonwealth of Virginia, the Authority has implemented the new reporting requirements for its fiscal year ended June 30, 2003.

Summary of Organization and Business

The Virginia Commercial Space Flight Authority was established by Chapter 758 of the 1995 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 29.1 of Title 9 of the Code of Virginia. The Authority was created to disseminate knowledge pertaining to scientific and technological research and development among public and private entities including, but not limited to, knowledge in the area of commercial space flight and to promote industrial and economic development. A Board of Directors, composed of 12 members, manages the Authority.

The Authority is considered a related organization of the Commonwealth of Virginia. Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are considered related organizations.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements prepared by the Authority. The MD&A represents management's examination and analysis of the financial performance of the Authority. The financial statements of the Authority are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; the Statement of Cash Flows; and Notes to Financial Statements. The following analysis discusses elements from these statements, as well as an overview of the Authority's activities.

Statement of Net Assets

The Statement of Net Assets presents the Authority's assets, liabilities and net assets as of the end of the fiscal year. The purpose of this statement is to present readers a fiscal snapshot at June 30, 2003. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the Authority's operations. They are also able to determine how much the Authority owes vendors and creditors. For more detailed information, see the accompanying Statement of Net Assets.

	<u>Enterprise Fund</u>		
	<u>2003</u>	<u>2002</u>	<u>Change</u>
<u>Assets</u>			
Current assets	\$ 405,922	\$ 399,898	\$ 6,024
Capital assets, net of accumulated depreciation	<u>1,838,366</u>	<u>1,947,843</u>	<u>(109,477)</u>
Total assets	<u>2,244,288</u>	<u>2,347,741</u>	<u>(103,453)</u>
<u>Liabilities</u>			
Total current liabilities	<u>118,376</u>	<u>72,805</u>	<u>45,571</u>
<u>Net assets</u>			
Invested in capital assets	1,838,366	1,947,843	(109,477)
Unrestricted	<u>287,546</u>	<u>327,093</u>	<u>(39,547)</u>
Total net assets	<u>\$2,125,912</u>	<u>\$2,247,936</u>	<u>\$(149,024)</u>

Statement of Revenues, Expenses, and Changes in Fund Net Assets

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents a summary of revenue and expense activity, which resulted in the change from beginning to ending net assets. The purpose of this statement is to present the Authority's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Operating revenues represent support provided by Old Dominion University to cover salaries. Operating expenses generally represent the cost of overall administration of the Authority and depreciation of its capital assets.

Nonoperating revenues and expenses represent funds received from state appropriations and federal cooperative agreements associated with the development of space launch capabilities at the Wallops Flight Facility located on the Eastern Shore of Virginia.

The following schedule compares the revenues, expenses, and net assets for the current and previous fiscal year.

Enterprise Fund

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Total operating revenues	\$ 54,372	\$ 54,372	\$ -
Total operating expenses	<u>377,335</u>	<u>496,053</u>	<u>(118,718)</u>
Operating loss	(322,963)	(441,681)	(118,718)
Net nonoperating revenue	<u>173,939</u>	<u>476,366</u>	<u>(302,427)</u>
Decrease in net assets	(149,024)	34,685	(183,709)
Total net assets – Beginning of year	<u>2,274,936</u>	<u>2,240,251</u>	<u>34,685</u>
Total net assets – End of year	<u><u>\$2,125,912</u></u>	<u><u>\$2,274,936</u></u>	<u><u>\$ (149,024)</u></u>

For more detailed information, see the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Operating expenses decreased as the Authority's staff devoted more time to activities under the nonoperating grants and contracts. Net nonoperating revenues decreased as a result of a reduction in the amount of state appropriation funds provided by the Commonwealth of Virginia (\$330,000).

Capital Assets And Long-Term Debt

The Authority's capital assets consist primarily of infrastructure development associated with the construction of Launch Pad 0-B at the Wallops Flight Facility on the Eastern Shore of Virginia. During fiscal year 2003, additional computer equipment costing \$8,276 was acquired. As discussed later, it is expected that significant additional infrastructure development will occur during fiscal year 2004. For more detailed information related to capital assets, see Note 3 in the Notes to Financial Statements. The Authority currently has no long-term debt obligations.

SIGNIFICANT EVENTS

As of the close of the fiscal year, the Authority was in final negotiations with the National Aeronautics and Space Administration (NASA) for the award of a multi-year task-ordering contract for the support of federal government launches from facilities owned by the Authority. The U. S. Air Force (USAF) has approved funding through this NASA contract for the Authority in the amount of approximately \$1.3 million to make modifications to Authority-owned infrastructure and to provide support services for a USAF orbital launch mission in Virginia during fiscal year 2004. Of the \$1.3 million, a benefit of approximately \$1.1 million in the Authority's capital assets will be realized in fiscal year 2004. Of the remaining \$200,000, approximately \$100,000 will be realized as revenues. The fiscal year 2004 launch support is the first in a series of several USAF launches expected to occur over the next five years. Depending on USAF program success and available federal funding, it is expected that this multi-year task-ordering contract will provide nonuniform operating revenues for continued operation of the Authority at the significantly reduced Manning and budget levels currently in place.

On June 23, 2003, Governor Robert L. Ehrlich of Maryland signed a Memorandum of Agreement between the Governors of Virginia and Maryland seeking to establish formal cooperation in the operation and

administration of the commercial space flight center at Wallops Island, Virginia, now owned and operated by the Authority. Governor Mark R. Warner is expected to sign the Memorandum of Agreement soon. If mutually acceptable terms can be reached by the working groups appointed from each state, it is expected that Maryland may begin making nominal cash contributions toward the operation of the Authority-owned space flight center assets by the end of fiscal year 2004. This contribution is expected to approximate the operating costs equivalent to one full-time salaried position.

NASA Goddard Space Flight Center/Wallops Flight Facility has indicated that they intend to fund the Authority under the existing Cooperative Agreement in the amount of approximately \$25,000 for the conduct of studies and research. This funding will be applied to operational revenues of the Authority.

These various federal sources of funds and the \$100,000 Commonwealth of Virginia appropriation, along with existing cash assets, are expected to meet the Authority's fiscal year 2004 operating budget. Currently, it is projected that there will be no operating reserve funds remaining at the close of fiscal year 2004. Stabilizing funding from nonoperating sources will be required to provide the operating and maintenance reserves necessary to capture the nonuniform, but sizable revenues from the anticipated federal launches over the next several years.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2003

ASSETS

Current assets:

Cash	\$ 228,332
Accounts receivable	151,924
Other assets	<u>25,666</u>

Total current assets	<u>405,922</u>
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Noncurrent assets:

Capital assets:

Improvements other than buildings	2,104,849
Land improvements	125,000
Office furniture	15,505
Computer equipment	33,103
Less accumulated depreciation	<u>(440,091)</u>

Total noncurrent assets	<u>1,838,366</u>
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Total assets	<u>2,244,288</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	38,251
Due to Old Dominion University Research Foundation	<u>80,125</u>

Total current liabilities	<u>118,376</u>
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NET ASSETS

Invested in capital assets	1,838,366
Unrestricted	<u>287,546</u>

Total net assets	<u><u>\$ 2,125,912</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2003

Operating revenues:	
Contributed services	<u>\$ 54,372</u>
Operating expenses:	
Administration	221,959
Depreciation	117,753
Other	<u>37,623</u>
Total operating expenses	<u>377,335</u>
Operating loss	<u>(322,963)</u>
Nonoperating revenues (expenses):	
State appropriations	100,000
Federal grants and contracts revenue	653,429
Private grants and contracts revenue	92,504
Grant expense	<u>(671,994)</u>
Total nonoperating revenue	<u>173,939</u>
Decrease in net assets	(149,024)
Total net assets - July 1, 2002	<u>2,274,936</u>
Total net assets - June 30, 2003	<u><u>\$ 2,125,912</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

Cash flows from operating activities:	
Payments to employees	\$ (118,375)
Payments to suppliers	<u>(91,385)</u>
Net cash used in operating activities	<u>(209,760)</u>
Cash flows from noncapital financing activities:	
State appropriations	100,000
Grant revenue	664,093
Grant expense	<u>(647,002)</u>
Net cash provided by noncapital financing activities	<u>117,091</u>
Cash flows from capital financing activities:	
Acquisition of equipment	<u>(8,276)</u>
Net decrease in cash and cash equivalents	(100,945)
Cash and cash equivalents - July 1, 2002	<u>329,277</u>
Cash and cash equivalents - June 30, 2003	<u><u>\$ 228,332</u></u>
Reconciliation of net income to net cash provided by operating activities:	
Operating loss	\$ (322,963)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	117,753
Contributed services, non-cash revenues	(54,372)
Contributed services, non-cash expense	54,372
Changes in assets and liabilities:	
Increase in other assets	(25,129)
Increase in accounts payable and accrued expenses	<u>20,579</u>
Net cash used in operating activities	<u><u>\$ (209,760)</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Commercial Space Flight Authority was established by Chapter 758 of the 1995 Acts of Assembly and operates as an independent agency in accordance with the provisions of Chapter 29.1 of Title 9 of the Code of Virginia. The Authority was created to disseminate knowledge pertaining to scientific and technological research and development among public and private entities including, but not limited to, knowledge in the area of commercial space flight, and to promote industrial and economic development. A Board of Directors, composed of 12 members, manages the Authority.

The Authority is considered a related organization of the Commonwealth of Virginia. Organizations for which a primary government is accountable because that government appoints a majority of the Board, but is not financially accountable, are considered related organizations.

B. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund. The enterprise fund is used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis, including depreciation, be financed or recovered primarily through user charges. All fund accounts of the Authority are presented in total on the financial statements.

C. Basis of Accounting

The Authority's records are maintained on the accrual basis whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

D. GASB Statement No. 34 Implementation

The Authority has implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The primary impact of the implementation of this statement is a change in the presentation format of the financial statements, the presentation of Management's Discussion and Analysis as required supplementary information, and certain footnote disclosures.

2. CASH

As of June 30, 2003, cash balances were held by the Old Dominion University Research Foundation. The Foundation maintains its cash balances in depository accounts at financial institutions with deposits insured by the FDIC.

3. ACCOUNTS RECEIVABLE

The Authority's accounts receivable at June 30, 2003, consisted of the following:

Federal grants	\$ 59,420
Private grants	<u>92,504</u>
Total	<u>\$151,924</u>

3. CAPITAL ASSETS

The schedule below shows the breakdown of capital assets by category at June 30, 2003:

	Balance July 1, 2002	Acquired (Increased)	Deleted (Decreased)	Balance June 30, 2003
Improvements other than buildings	\$2,104,849	\$ -	\$ -	\$2,104,849
Land improvements	125,000	-	-	125,000
Office equipment	15,505	-	-	15,505
Computer equipment	<u>24,827</u>	<u>8,276</u>	<u>-</u>	<u>33,103</u>
Total at historical cost	<u>2,270,181</u>	<u>8,276</u>	<u>-</u>	<u>2,278,457</u>
Less: Accumulated depreciation for:				
Improvements other than buildings	263,106	105,243	-	368,349
Land improvements	27,078	8,333	-	35,411
Office equipment	12,733	1,287	-	14,020
Computer equipment	<u>19,421</u>	<u>2,890</u>	<u>-</u>	<u>22,311</u>
Total accumulated depreciation	<u>322,338</u>	<u>117,753</u>		<u>440,091</u>
Capital assets, net	<u>\$1,947,843</u>	<u>(\$109,477)</u>	<u>\$ -</u>	<u>\$1,838,366</u>

Capital assets of the Authority are stated at cost and at the time of acquisition are set up in a comprehensive fixed asset system. Depreciation of the cost of capital assets is provided on a straight line basis over their estimated useful lives as follows:

Office equipment	7 years
Computer equipment	5 years
Land improvements	15 years
Improvements other than buildings	20 years

4. DUE TO OLD DOMINION UNIVERSITY RESEARCH FOUNDATION

The Old Dominion University Research Foundation has advanced funds out of its reserves to finance various sponsored research programs for the Authority. The Authority will refund these advances as funds are received from grantors.

5. CONTRIBUTED SERVICES

Contributed services represent amounts paid by Old Dominion University to Authority employees on behalf of the Authority.

6. RELATED PARTY

The Authority has entered in a Limited Liability Corporation agreement with DynSpace, LLC. This agreement will create a joint venture called Flight Center One (FCO). The finalization of the agreement is incumbent on execution of a facilities lease, which will be executed when commercial business opportunities warrant the need for the facility.

7. RETIREMENT AND PENSION SYSTEMS

Certain employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS) through Old Dominion University. The VRS also administers life insurance and health-related plans for retired employees. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Other regular full-time employees receive fixed contributions of 11 percent, which can be invested through an Old Dominion University Research Foundation-sponsored 403(b) Tax Sheltered Annuity Plan or received as taxable income. The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

8. VIRGINIA LOCAL GOVERNMENT RISK MANAGEMENT PLAN

The Virginia Commercial Space Flight Authority is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The employees, directors, and agents of the Authority were insured for these risks under a self-insured liability plan, VaRISK 2, administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, with liability limits of \$1,000,000 for each occurrence.

VIRGINIA COMMERCIAL SPACE FLIGHT AUTHORITY
Norfolk, Virginia

BOARD MEMBERS

Michael Schewel, Chairman

Frederick B. Cooke, Jr., Vice-Chairman

Linda W. Banton
Mark E. Bitterman
Vincent C. Boles
Peter Jobse

Wilson T. Lundy
Frank V. Moore
George C. Newstrom
Roseann Runte

Thomas J. Savage, Jr.

Billie M. Reed, Executive Director

Linda E. Gentry, Treasurer